

Calendar No. 438

97TH CONGRESS
2D SESSION

S. 864

[Report No. 97-312]

To amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency.

IN THE SENATE OF THE UNITED STATES

APRIL 2 (legislative day, FEBRUARY 16), 1981

Mr. EAGLETON (for himself, Mr. PERCY, Mr. MATHIAS, Mr. ROTH, Mr. CHILES, Mr. SASSER, Mr. PRYOR, Mr. LEVIN, and Mr. SARBANES) introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

FEBRUARY 11 (legislative day, JANUARY 25), 1982

Reported by Mr. ROTH, with an amendment in the nature of a substitute

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

~~SHORT TITLE~~

2 ~~SECTION 1. This Act may be cited as the “Financial~~
3 ~~Integrity Act of 1981”.~~

FINDINGS AND POLICY

5 ~~SEC. 2. (a) The Congress hereby finds that—~~

6 (1) fraud, waste, and mismanagement have caused
7 a serious crisis of confidence in Federal Government
8 programs and agencies;

9 (2) fraud and errors in Federal programs are more
10 likely to occur from a lack of effective systems of inter-
11 nal accounting and administrative control in the
12 Federal agencies;

(2) effective systems of internal accounting and administrative control provide the basic foundation upon which a structure of public accountability must be built;

(4) effective systems of internal accounting and administrative control are necessary to provide assurance that Federal assets and funds are adequately safeguarded as well as to produce reliable financial information for the agency;

(5) systems of internal accounting and administrative control are necessarily dynamic and must be continuously evaluated and where necessary improved; and

1 (6) reports regarding the adequacy of the systems
2 of internal accounting and administrative control of
3 each Federal agency are necessary to enable the ex-
4 ecutive branch, the Congress, and the public to evalu-
5 ate the agency's performance of its public responsibil-
6 ities and accountability.

7 (b) It is hereby declared to be the policy of the United
8 States that—

9 (1) each Federal agency must maintain effective
10 systems of internal accounting and administrative con-
11 trol as an integral part of its management practices;

(2) the systems of internal accounting and administrative control of each Federal agency shall be evaluated on an ongoing basis and when detected, weaknesses must be promptly corrected; and

(2) all levels of management of the Federal agencies must involve themselves in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of Government funds.

21 ~~DEFINITIONS~~

22 ~~SEC. 3. As used in this Act:~~

23 (a) The term “President” means the President of the
24 United States.

1 (b) The term "Comptroller General" means the Comp-
2 troller General of the United States.

3 (c) The term "Director" means the Director of the
4 Office of Management and Budget.

5 SEC. 4. Section 113 of the Accounting and Auditing
6 Act of 1950, as amended (31 U.S.C. 66a), is amended by
7 adding at the end thereof the following new subsection:

8 "(d)(1) To ensure that the requirements of subsection
9 (a)(2) of this section are fully complied with, the head of each
10 executive agency, which the Director determines to be cov-
11 ered by this subsection, shall prepare a report stating an
12 opinion on the adequacy of the agency's systems of internal
13 accounting and administrative control by December 31,
14 1982, and by December 31 following the end of each fiscal
15 year thereafter.

16 "(2) The reports shall be signed by the head of each
17 executive agency and addressed to the President. Such re-
18 ports shall also be made available to Congress and the public.

19 "(3) By December 31, 1981, the Comptroller General,
20 in consultation with the Director, shall establish a system of
21 reporting and a general framework to guide the agencies in
22 performing evaluations on their systems of internal account-
23 ing and administrative control. The Comptroller General, in
24 consultation with the Director, may modify the format for the

1 report or the framework for conducting the evaluations from
2 time to time as deemed necessary.

3 “(4) Internal accounting and administrative controls are
4 to be defined by the Comptroller General, and shall provide
5 reasonable assurances that—

6 “(i) all obligations and costs were in compliance
7 with applicable law;

8 “(ii) all funds, property, and other assets were
9 safeguarded against waste, loss, unauthorized use, or
10 misappropriation; and

11 “(iii) all revenues and expenditures applicable to
12 agency operations were properly recorded and ac-
13 counted for to permit the preparation of accounts and
14 reliable financial and statistical reports and to maintain
15 accountability over the assets.

16 Any inadequacy or material weaknesses in an agency's sys-
17 tems of internal accounting and administrative control which
18 prevents the head of the agency from stating that the
19 agency's systems of internal accounting and administrative
20 control provided reasonable assurances that each of the ob-
21 jectives specified above were achieved shall be identified and
22 the plans and schedule for correcting any such inadequacy
23 described in detail.

24 “(5)(A) The Inspector General of an executive agency
25 or, if no Inspector General exists for an agency, the head of

1 the internal audit staff, shall receive and investigate any alle-
2 gation that an employee of the agency provided false or mis-
3 leading information in connection with the evaluation of the
4 agency's systems of internal accounting and administrative
5 control or in connection with the preparation of the annual
6 report on the systems of internal accounting and administra-
7 tive control.

8 “(B) If, in connection with any investigation under sub-
9 paragraph (a), the Inspector General or the head of the inter-
10 nal audit staff, as appropriate, determines that there is rea-
11 sonable cause to believe that false or misleading information
12 was provided, he shall report that determination to the head
13 of the agency.

14 “(C) The head of the agency shall review any matter
15 referred to him under subparagraph (b) and shall take action
16 under chapter 75 of title 5, United States Code, or such other
17 disciplinary or corrective action as he deems necessary.”

18 *SHORT TITLE*

19 *SECTION 1. This Act may be cited as the “Financial*
20 *Integrity Act of 1981”.*

21 *FINDINGS AND POLICY*

22 *SEC. 2. (a) The Congress hereby finds that—*

23 *(1) fraud, waste, and mismanagement have*
24 *caused a serious crisis of confidence in Federal Gov-*
25 *ernment programs and agencies;*

1 (2) *fraud and errors in Federal programs are*
2 *more likely to occur from a lack of effective systems of*
3 *internal accounting and administrative control in the*
4 *Federal agencies;*

5 (3) *effective systems of internal accounting and*
6 *administrative control provide the basic foundation*
7 *upon which a structure of public accountability must*
8 *be built;*

9 (4) *effective systems of internal accounting and*
10 *administrative control are necessary to provide assur-*
11 *ance that Federal assets and funds are adequately safe-*
12 *guarded as well as to produce reliable financial infor-*
13 *mation for the agency;*

14 (5) *systems of internal accounting and adminis-*
15 *trative control are necessarily dynamic and must be*
16 *continuously evaluated and where necessary improved;*
17 *and*

18 (6) *reports regarding the adequacy of the systems*
19 *of internal accounting and administrative control of*
20 *each Federal agency are necessary to enable the execu-*
21 *tive branch, the Congress, and the public to evaluate*
22 *the agency's performance of its public responsibilities*
23 *and accountability.*

24 (b) *It is hereby declared to be the policy of the United*
25 *States that—*

1 (1) each Federal agency must maintain effective
2 systems of internal accounting and administrative con-
3 trol as an integral part of its management practices;

4 (2) the systems of internal accounting and admin-
5 istrative control of each Federal agency shall be evalu-
6 ated on an ongoing basis and when detected, weak-
7 nesses must be promptly corrected; and

8 (3) *all levels of management of the Federal agen-*
9 *cies must involve themselves in assessing and strength-*
10 *ening the systems of internal accounting and adminis-*
11 *trative control to minimize fraud, errors, abuse, and*
12 *waste of Government funds.*

13 *DEFINITIONS*

14 *SEC. 3. As used in this Act:*

15 (a) The term “President” means the President of the
16 United States.

(b) The term “Comptroller General” means the Comptroller General of the United States.

19 (c) The term “Director” means the Director of the
20 Office of Management and Budget.

21 *SEC. 4. Section 113 of the Accounting and Auditing*
22 *Act of 1950, as amended (31 U.S.C. 66a), is amended by*
23 *adding at the end thereof the following new subsection:*

24 “(d)(1) To ensure that the requirements of subsection
25 (a)(3) of this section are fully complied with, the head of each

1 *executive agency shall, on the basis of an evaluation conduct-*
2 *ed in accordance with guidelines prescribed under paragraph*
3 *(5) of this subsection, prepare a report describing whether the*
4 *agency's systems of internal accounting and administrative*
5 *control are sufficient to provide reasonable assurance of meet-*
6 *ing the objectives of such systems as specified in subsection*
7 *(d)(6) of this section. Such report shall be issued by each*
8 *agency no later than December 31, 1982, and by December*
9 *31 following the end of each fiscal year thereafter.*

10 “(2) *The reports shall be signed by the head of each*
11 *executive agency and addressed to the President. Such re-*
12 *ports shall also be made available to Congress and the public.*

13 “(3) *The reports shall indicate whether—*

14 “(A) *the agency's systems of internal accounting*
15 *and administrative control fully comply with the re-*
16 *quirements of subsection (d)(6) of this section; or*

17 “(B) *such systems do not fully comply with such*
18 *requirements.*

19 “(4) *In the event that the head of an agency prepares a*
20 *report described in paragraph (3)(B), the head of such agency*
21 *shall include with such report an identification and descrip-*
22 *tion of any material weaknesses in the agency's systems of*
23 *internal accounting and administrative control and the plans*
24 *and schedule for correcting any such weaknesses.*

1 “(5) By June 30, 1982, the Director of the Office of
2 Management and Budget, in consultation with the Comptrol-
3 ler General, shall establish guidelines for the evaluation by
4 agencies of their systems of internal accounting and adminis-
5 trative control to determine such systems’ compliance with
6 the requirements of subsection (d)(6) of this section. The Di-
7 rector, in consultation with the Comptroller General, may
8 modify the format for the reports required by subsection
9 (d)(1) or the framework and guidelines for conducting the
10 agency evaluations from time to time as deemed necessary.

11 “(6) Internal accounting and administrative controls
12 shall be established in accordance with standards prescribed
13 by the Comptroller General, and shall provide reasonable as-
14 surances that—

15 “(i) all obligations and costs are in compliance
16 with applicable law;

17 “(ii) all funds, property, and other assets are safe-
18 guarded against waste, loss, unauthorized use, or mis-
19 appropriation; and

20 “(iii) all revenues and expenditures applicable to
21 agency operations are properly recorded and accounted
22 for to permit the preparation of accounts and reliable
23 financial and statistical reports and to maintain ac-
24 countability over the assets.”.

Calendar No. 438

97TH CONGRESS
2^D SESSION

S. 864

[Report No. 97-312]

A BILL

To amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency.

FEBRUARY 11 (legislative day, JANUARY 25), 1982

Reported with an amendment in the nature of a substitute